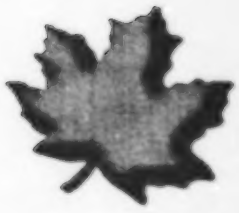

Sustainable Development Strategy

Department of Finance

2001-2003

Canada

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Executive Summary

The Government's overall approach to sustainable development (SD) includes the set of all sustainable development strategies by federal departments and agencies, strategies that articulate the numerous actions and commitments departments will undertake to promote sustainable development in Canada.

The Department of Finance Canada, along with 27 other federal departments, tabled its first sustainable development strategy in Parliament in December 1997. Finance's first sustainable development strategy proved to be a valuable tool for illustrating how the federal government's fiscal and economic plans were contributing to sustainability in Canada. It also outlined Finance's approach and contribution to environmental objectives and international sustainable development issues, and showed how we would improve environmental performance in our own operations. The central goal of the 1997 strategy was a commitment to improving Canadians' quality of life and improving the Government's ability to address Canadians' priorities.

This document presents the Department of Finance's 2001-2003 sustainable development strategy. It builds upon the solid foundation that was provided by the 1997 strategy and upon the progress achieved by the Department and the Government as a whole over the last three years in promoting sustainable development. The new strategy is focused on priority areas where the Department can make unique and important contributions to sustainable development in Canada and internationally. It makes use of the extensive guidance that has been provided by the Commissioner of the Environment and Sustainable Development and by other departments and stakeholders, and has been shaped by the Department's own experience and lessons learned.

The actions contained in this strategy support **Finance's two key sustainable development goals for 2001-2003: ensuring intergenerational equity and more fully integrating economic, social and environmental considerations and objectives into policy making**. In pursuing these goals the Department has identified four theme areas or "key issues" upon which to base action over the upcoming three years: Building the Future; Integrating the Economy and the Environment; Sustainable Development in the Global Economy; and Greening Operations.

The actions Finance plans to undertake include: improving Canada's fiscal health; strengthening society through the Department's management of federal-provincial transfer programs; implementing initiatives through the budget process to respond to the Government's sustainable development priorities; building on the Department's analytical foundation (including new analysis on policy approaches such as domestic emissions trading to reduce emissions of greenhouse gases); analyzing proposals for integrating environmental and economic considerations into specific tax, spending and related policies; participating in efforts to address globalization of the economy and understanding the links to environmental concerns and international competitiveness; strengthening Finance's sustainable development commitments related to negotiations on international environmental agreements and trade agreements; and undertaking efforts to reduce the harmful environmental effects of the Department's own internal operations.

A renewed approach for managing the Department's implementation of its sustainable development strategy has also been adopted, including the designation of a departmental sustainable development champion, and new roles for senior management and officials in ensuring the strategy's implementation. (A summary of the Department's key issues, objectives and actions, as well as the management structure, is provided on pages 11-13.)

Finance's 2001-2003 sustainable development strategy should be viewed in the context of important changes that have taken place in Canada since the first sustainable development strategy was developed three years ago. We have eliminated our deficit, inflation remains low, unemployment levels have fallen and the debt burden is being reduced. We are also entering a period of unprecedented change that presents both challenge and opportunity for all Canadians. The new economy, marked by increasing globalization and rapid innovation, offers new opportunities for economic growth and holds the promise of major changes in the way we interact socially and with the environment.

How we respond to these changes will set the stage for future sustainable development efforts. Sound policy making will inevitably play a key role. In our view, the commitments in Finance's 2001-2003 sustainable development strategy to improving communication and co-operation and to building a more integrated knowledge foundation will help contribute to the Government's overall decision-making abilities and policy making on sustainable development objectives. In fulfilling these actions over the next three years, we will also turn our thoughts to the future and deliberate on how we can continue to improve upon our contribution to sustainable development. In our view, sustainable development implies an ongoing process of experience, learning and change – it is a journey as much as it is a destination.

The Department of Finance and Sustainable Development

Defining Sustainable Development

"Sustainable development" (SD) is defined in a variety of ways. For the Government of Canada, the Auditor General Actuses the definition identified in the 1987 Report of the World Commission on Environment and Development (the "Brundtland Commission"), in which sustainable development is defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[1]

To assist federal departments in viewing sustainable development through the lens of their own mandates, the Auditor General Act provides a further elaboration of sustainable development as:

> a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,
>
> (a) the integration of the environment and the economy;
> (b) protecting the health of Canadians;
> (c) protecting ecosystems;
> (d) meeting international obligations;
> (e) promoting equity;
> (f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;
> (g) preventing pollution; and
> (h) respect for nature and the needs of future generations.[2]

This definition makes it clear that achieving sustainable development is a challenge that calls for action by the international community, national governments, sub-national and local governments, industry, organizations and individuals. For the Government of Canada, responding to this challenge requires new, more integrated approaches to economic, social and environmental issues. Through departmental sustainable development strategies (SDSs), departments are able to describe how these new approaches will be put into practice.

Roles and Responsibilities of the Department of Finance

The Department of Finance's main role is to assist the Government in developing and implementing policies that foster growth, create jobs and promote a secure society. The Department is the Government's primary source of analysis and advice on the broad economic and financial affairs of Canada.

The whole of the Department's role in government can be considered policy development, analysis and advice. This policy role has both internal and external dimensions. Policy development takes place within Finance on those issues and areas of responsibility that are within the Department's mandate. In fulfilling this internal policy development role, the Department is responsible for:

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[1] The World Commission on Environment and Development, *Our Common Future* (New York: Oxford University Press, 1987), p. 43.

[2] *Auditor General Act*, 1995, c. A-17, s. 21.1.

- analyzing the economic and fiscal situation and prospects for Canada and other countries important to our economy;
- providing analysis, advice and recommendations on tax and trade policy and preparing tax and trade legislation;
- providing analysis, advice and recommendations relating to the management of federal financial assets and liabilities, including the management of federal and Crown corporation borrowing on financial markets;
- managing transfers and fiscal relations with the provinces and territories;
- developing financing and investment policy for the Canada Pension Plan (CPP) in conjunction with the provinces;
- providing analysis and advice related to the setting of the annual employment insurance premium rate;
- representing Canada within international financial institutions (IFIs) and international economic and trade forums; and
- developing polices for, and advice on, the financial sector and financial markets.

The external dimension of Finance's policy role includes the provision of analysis and advice on the policy and program proposals developed by other federal departments. This is the Department's "central agency" role, in which Finance officials serve as members of a broader team that includes federal officials from other departments and reviews options for, and the implications of, proposals that are presented to cabinet. Finance provides advice primarily on the economic and fiscal implications of proposals from departments as well as stakeholders.

Probably the most well-known role of the Department is its preparation of the annual federal budget – a role that relies upon both the Department's internal policy development responsibilities and on its "central agency" role. The annual federal budget is one of the key mechanisms by which the Government implements its overall agenda.

Finance's roles and responsibilities provide the basis upon which the Department's sustainable development strategy is built. As a policy-oriented department, Finance has limited direct involvement in delivering programs or services to Canadians. A key goal for the Department's sustainable development strategy, therefore, is to identify where we can best make a difference: how we can best enhance or alter our policy development, analysis and advice activities to contribute to the Government's overall sustainable development efforts. Finance's core contribution to sustainable development is rooted in two fundamental SD goals that are closely linked to the Department's mandate:

- promoting intergenerational equity through effective fiscal management; and
- continually striving to more fully integrate economic, social and environmental considerations and objectives into policy making.

These two ongoing goals provide the foundation for our sustainable development strategy.

The 1997 Sustainable Development Strategy: Achievements and Lessons Learned

Like all federal departments, the Department of Finance tabled its first sustainable development strategy in the House of Commons in December 1997. Finance's first strategy was based on four "key issues," which helped to frame the Department's approach to SD. These were:

1) integrating the environment and the economy;
2) building the future;
3) participating in the global economy; and
4) greening operations.

Achievements

Since 1997 the Department has undertaken key policy initiatives related to its sustainable development goals. This section highlights those achievements.

➢ Fiscal Management

A major contribution to sustainable development involved correcting previously unsustainable fiscal management policies:

Eliminating the federal deficit and reducing the nation's debt burden

Over the past seven years the Government has taken steps to put its fiscal finances back on a sustainable track. Enormous progress has been made toward this goal. The federal deficit was eliminated in 1997-98 and the first budgetary surplus was posted in more than 25 years. A second surplus was recorded in 1998-99, and in 1999-2000 the Government posted a record $12.3 billion surplus, the largest since Confederation. All of these surpluses have contributed to paying down the national debt. In addition, the 2000 fall *Economic Statement and Budget Update* committed to a further $10-billion debt paydown in 2000-2001. This brings the Government's total debt paydown over the last four years to $28.7 billion and has reduced the debt-to-GDP (gross domestic product) ratio from 71.2 per cent in 1995-96 to 58.9 per cent in 1999-2000.

Reforming the Canada Pension Plan

At the beginning of 1998 the federal and provincial governments put in place major reforms to the CPP to make it sustainable. These changes are now expected to be sufficient to sustain the CPP throughout the aging of the population and the retirement of the baby boom generation.

➢ Social Development

Other policies have been developed with the goal of more fully integrating important economic and social objectives through, for instance:

The Canada Child Tax Benefit

In 1997 the federal government, in co-operation with the provinces, created the National Child Benefit (NCB) system to help families with the costs of raising children and to make it easier for low-income parents to enter and stay in the workforce to support their families. Under the NCB system, both tiers of government have made changes to their income assistance programs for low-income families with children.

On the federal side, the Canada Child Tax Benefit (CCTB) has been enriched significantly since 1997. By 2004 over $2.5 billion per year will have been invested into the National Child Benefit Supplement – the component of the CCTB for low-income families. On the provincial side, existing social assistance funds have been reinvested into complementary programs and services aimed at improving work incentives for low-income families, such as child care. Through this co-operative system, social and economic goals have been integrated – parents are better able to remain in the workforce and children's needs are protected.

The federal government increased the CCTB every year between 1997 and 2000, from $5.3 billion in 1997 to almost $7 billion in 2000. Further increases have been announced for the next four years.

Increased Canada Health and Social Transfer funding to the provinces to support health care and other social programs

Since the federal budget was balanced in 1997-98, nearly three-quarters of all new spending has been directed towards health care, children and education. The Government added $11.5 billion for health over five years in the 1999 budget, and a further $2.5 billion for health and post-secondary education in the 2000 budget.

In September 2000, to support agreements reached by Canada's first ministers on health renewal and early childhood development, the federal government committed $23.4 billion through to 2005-2006 to provide growing and stable longer-term funding:

- $21.1 billion in general funding, over five years, through the Canada Health and Social Transfer (CHST), including $2.2 billion for early childhood development. Annual CHST cash will rise from $15.5 billion today to $21 billion in 2005-2006 – a 35-per-cent increase.
- $2.3 billion of targeted funding to purchase up-to-date medical equipment, improve information systems supporting health services and accelerate changes in the way primary health care is provided to Canadians.

Beyond the CHST, the federal government has increased significantly its direct programs and services in health and health care: health protection, disease strategies, research, tax support, and services for First Nations.

➢ Environmental Protection and Improvement

By virtue of Finance's responsibility for preparing the federal budget, the Department has also played a significant role in implementing new environmental initiatives. For example, since 1997 new funding has been provided for:

- supporting new environmental legislation such as the Canadian Environmental Protection Act ($42 million) and the bill to establish a species at risk act ($90 million);
- implementing initiatives for mitigating the release of greenhouse gases (over $800 million);
- helping municipalities invest in green infrastructure for improved water and energy efficiency ($125 million); and
- promoting the development of environmental technologies (over $150 million).

A number of other spending and tax initiatives related to the environment and the more efficient use of energy have also been implemented in the past three years. These are described more fully in the section entitled "The Sustainable Development Framework for 2001-2003."

➢ Measuring Progress on Sustainable Development

The Government's overall commitment to sustainable development involves finding new and reliable ways to measure sustainability in Canada. That is why the 2000 federal budget announced a new $9-million initiative to develop and improve environmental and sustainable development indicators. These indicators will help the Government to integrate economic, environmental and social information into policy making and better track Canada's overall progress toward ensuring sustainable development.

What underlies each of these important policy achievements is the longer-term focus that guided their development and implementation. For instance, the elimination of the federal deficit and reduction of the debt burden have allowed for investments in new policy approaches to sustainable development that are not only effective but are not financed with money borrowed from future generations. In fact, sound fiscal management is fundamental to ensuring that future generations are able to meet their social, economic and environmental goals in the long term.

While the long-term sustainable development benefits of the above achievements are only beginning to be recognized, they are evidence of the importance of a strong policy foundation for sustainable development. This document describes those policy areas within Finance's mandate that we believe are priority areas for this foundation; where work today, in co-operation with other departments, stakeholders and other Canadians, can best contribute to ensuring future sustainable development.

Key Lessons Learned

In the spring of 1998, the report of the Commissioner of the Environment and Sustainable Development provided departments with the first feedback on the structure and content of their strategies.[3] The Commissioner's main message was that departments' first strategies were a good start, but that there was a good deal of scope for improvement in several key areas. By way of guidance, in 1999 the Commissioner announced a set of expectations for departments' 2001-2003 strategies in the document *Moving Up the Learning Curve: The Second Generation of Sustainable Development Strategies*.

For Finance, the feedback and guidance from the Commissioner has played an important role in shaping the development and content of the 2001-2003 SDS. In response to the Commissioner's concerns and expectations, the Department conducted an internal assessment of its first strategy, revisited its scan of sustainable development issues (i.e., its issue scan), and sought stakeholder views earlier and more frequently in the process of developing its second strategy. Some of the key conclusions of these activities formed the basis of the Department's approach to updating its 1997 SDS.

The overarching message obtained through the Department's own assessment, its issue scan and its consultations with stakeholders was that Finance's contribution to SD is closely tied to pursuing sustainable development objectives through new policy initiatives. Three aspects of Finance's role in policy development were identified as especially important to Finance's contribution to sustainable development:

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[3] The Commissioner, whose position was established by the Auditor General Act in 1995, is charged with the duty of overseeing the federal government's efforts to protect the environment and foster sustainable development, in part by monitoring departments' sustainable development strategies.

➢ Consultation and Advice

The Department plays an important, ongoing consultative and advisory role with many federal departments, private organizations and the public on issues related to sustainable development, especially in the context of reviewing budget proposals related to taxes and spending. Ongoing consultation is a fundamental part of the policy-making process in the Department and allows it to maintain an awareness and understanding of a wide range of views on the Government's sustainable development priorities.

For instance, recent changes to the tax system's treatment of certain equipment and machinery to ensure that their capital cost allowance rates reflected their economic life, thereby mitigating economic distortions caused by the tax system, were developed through ongoing consultation with the private sector, environmental groups and other departments. The importance of this role to the Department in pursuing SD also extends to spending initiatives that can be the consequence of consultative efforts. As a result, the Department's consultation function was determined to be a necessary and fundamental part of the its new strategy for sustainable development.

➢ Policy Development and Analysis

Many of the action items set out in Finance's 1997 SDS involved commitments to conduct further analysis on a variety of issues, in keeping with the Department's main role in policy development, analysis and advice. Enhancing analysis remains a cornerstone of the Department's approach to sustainable development. Taken together with the Department's consultative role, analytical commitments represent important, forward-looking planning on the integration of priority sustainable development issues into broader government policy and priorities.

An example of this analytical role is Finance's involvement in the Government's work to develop a plan to address climate change. In particular, the Department has committed to conduct research and analysis on the possible use of domestic emissions trading – a commitment that has been well integrated into departmental planning by virtue of its inclusion in the Department's annual *Report on Plans and Priorities*, which sets out the Department's priority work areas each year.

Communicating the results of the Department's analytical efforts is the natural corollary to conducting analysis. In the past several years Finance has prepared or been involved in the preparation of several reports that deal with key sustainable development issues, including *The Level Playing Field: The Tax Treatment of Competing Energy Investments* and *Federal Income Tax Treatment of Virgin and Recycled Materials*."[4] A key message received from stakeholders was that Finance has a role to play in continuing to inform, and be informed by, Canadians on important sustainable development issues where Finance has specialized knowledge and analytical capacities.

➢ Reporting on Progress

An important observation made during the Department's internal assessment of the 1997 strategy was that the initiatives announced in the 1998, 1999, 2000 budgets and the October 2000 *Economic Statement and Budget Update* relating to sustainable development did not specifically correspond to goals or targets in Finance's or any other department's 1997 SDS. In fact, because the budget is prepared each year in response to priorities, it was, and remains, difficult for departments to identify

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[4] These documents can be found on the following Department of Finance Web page: http://www.fin.gc.ca/access/pubs96_e.html

future budget initiatives as actions or targets in their sustainable development strategies – despite the fact that some may be implemented.

To help respond to the reporting gap created by this situation, it was determined that Finance's 2001-2003 SDS should report on key sustainable development initiatives announced in budgets since the release of the 1997 SDS. These are reported in the sections entitled "Key Issue #1: Building the Future" and "Key Issue #2: Integrating the Economy and the Environment."

Another important aspect of reporting on sustainable development includes reporting on the success of budget initiatives: Did they accomplish what they were intended to accomplish? What environmental or sustainable development improvements are the result of new policies or programs? This type of reporting is much more complex and often requires a certain length of time to ensure that the program or policy is fully implemented and enough data or information can be gathered. Nevertheless, reporting of this type is important for helping departments, parliamentarians and other Canadians assess what works and what works best so that continual improvements can be made.

Despite its role in preparing the federal budget, Finance does not report on the implementation of most SD-related policies or programs announced in federal budgets. Rather, the individual department with lead responsibility for the program's or policy's implementation undertakes reporting of such initiatives through one or more avenues. For instance, all departments report annually in their *Departmental Performance Report* (DPR) on progress made toward the commitments in their SDSs. Departments' DPRs may also describe the outcomes or impacts of implemented budget initiatives or might indicate additional departmental reports or publications that contain more information. In addition, many departments have also developed reliable indicators and set benchmarks for program objectives and report regularly on the assessment of progress.

Summaries of Finance's assessment of the 1997 SDS, the spring 2000 issue scan and our consultations can be found in the annexes.

The Sustainable Development Framework for 2001-2003

Building on Our Foundation

In moving forward, Finance's second sustainable development strategy is built upon the solid foundation provided by the Department's 1997 strategy. The new framework relies on the focus provided by the four key issues in the 1997 strategy while slightly reorganizing the order in which they are presented. In the new SD framework, objectives and actions under "Building the Future" are discussed first in order to outline the Department's actions on core government SD priorities, including improving intergenerational equity. The following framework describes the Department's new and updated objectives and actions, and adds an improved management process to oversee the implementation of the strategy.

Management Structure

New roles for managing the Department's implementation of its SDS have been identified, including designating a departmental SD champion, establishing a sustainable development working group and defining new roles for senior management.

Key Issues

The actions Finance plans to take over the next three years to contribute to sustainable development are found under various objectives within the Department's following four key issues:

1. **Building the Future:** Involves demonstrating the sustainable development impacts of the Government's key priorities in areas where Finance has a mandated responsibility.

   This includes improved fiscal health; strengthening society through the Department's management of federal-provincial transfer programs; and implementing other initiatives through the budget process to respond to the Government's sustainable development priorities.

2. **Integrating the Economy and the Environment:** Involves building on the Department's analytical foundation and broadening its knowledge base in support of progress in integrating environmental and economic considerations into specific tax, spending and related policies.

   This includes commitments to further analytical work (for instance, on policies to respond to climate change) that build on some of the analytical progress to date.

3. **Sustainable Development in the Global Economy:** Involves participating in efforts to address globalization of the world economy and the links to environmental concerns and international competitiveness.

   This includes strengthening Finance's SD commitments related to negotiations on international environmental agreements and trade agreements and with respect to our sustainable development efforts within international institutions.

4. **Greening Operations:** Involves identifying and acting to eliminate any harmful environmental effects of the Department's own internal operations.

Sustainable Development Action Plan for 2001-2003

The following tables provide a summary of the actions and the management structure included in the Department's 2001-2003 sustainable development strategy. Each of the key issues, objectives and actions is discussed more fully in the sections dealing with the four key issues. The section entitled "Improved Management and Co-ordination" elaborates on the new management structure.

Key issues	Objectives	Actions
1. Building the Future	**1a.** Maintaining a Healthy Fiscal Climate	**1a.1** Continue the Government's commitment to balanced budgets or better in 2000-2001 and 2001-2002
		1a.2 Continue to pursue the Government's Debt Repayment Plan to ensure the debt-to-GDP ratio remains on a permanent downward track
		1a.3 Continue to pursue the proposed legislation and implementation of the commitments in the Government's Five-Year Tax Reduction Plan.
	1b. Building a Strong Society	**1b.1** Ensure predictable and growing funding for health and social programs
		1b.2 Conduct a mid-term review of the CHST in 2003-2004 and set a new five-year legislative funding track by the end of 2003-2004
		1b.3 Ensure fiscal disparities are addressed through the Equalization and Territorial Formula Financing programs
		1b.4 Monitor developments and make adjustments when necessary, or in the context of the CPP's 2001-2003 review, to ensure that the retirement income system remains sustainable and meets seniors' needs
	1c. Implementing Key Federal Sustainable Development Priorities	**1c.1** In the context of planning for future budgets, work with other federal departments and stakeholders to identify ways to address sustainable development priorities
2. Integrating the Economy and the Environment	**2a.** Using the Tax System	**2a.1** Examine areas where the tax system may be having an impact on the longer-term goals of sustainable development.
		2a.2 Assess policy options aimed at levelling the playing field between various economic activities
		2a.3 Evaluate all environment-related tax proposals received from stakeholders, including those to encourage environmentally positive activities and discourage environmentally negative ones

Key issues	Objectives	Actions
	2b. Developing Practical Uses of Economic Instruments	**2b.1** Lead further work on the design of a potential greenhouse gas emissions trading system in co-operation with other federal departments, other governments and stakeholders **2b.2** Continue to conduct economic research and analysis, including through the use of one of the economic models the Department maintains, to assess the potential costs of a major economic instrument, such as emissions trading, and other policy options to reduce emissions of greenhouse gases **2b.3** Participate in an initiative led by the NRTEE on ecological fiscal reform over 2000-2002 **2b.4** Monitor and evaluate the use of economic instruments in the Organisation for Economic Co-operation and Development (OECD) countries
	2c. Integrated Decision Making – Increasing the Knowledge Base	**2c.1** Participate in the Budget 2000 initiative on environmental and sustainable development indicators led by NRTEE and Environment Canada over 2000-2003 **2c.2** Prepare a case study on different nations' use of assistance for green power to be completed by 2003 **2c.3** Develop an inventory of economic research on the links between the new economy and environment beginning in 2001
3. Sustainable Development in the Global Economy	**3a.** Participating in Negotiating International Environmental Agreements	**3a.1** Work with other departments on Canada's approach to international negotiations on climate change **3a.2** Support initiatives to enhance the understanding of linkages between multilateral environmental agreements and trade rules
	3b. Integrating Environment Into Future Negotiations on Trade and Investment Agreements	**3b.1** Work with the Department of Foreign Affairs and International Trade (DFAIT) on trade and environment linkages in the context of the World Trade Organization (WTO) and possible future trade negotiations **3b.2** Work with DFAIT and Industry Canada to promote free trade in the environmental sector, and continue to review specific requests to remove tariffs where they are identified as a significant disincentive to the acquisition of environmental technology products
	3c. Developing Environmental Guidelines for Export Credit Agencies	**3c.1** Together with DFAIT, actively participate in and contribute to the work of developing common environmental guidelines for export credit agencies at the OECD and at the G8 level

Key issues	Objectives	Actions
	3d. Working With International Financial Institutions	**3d.1** Promote macroeconomic stability in the international financial system and in individual emerging economies **3d.2** Support the work of IFIs in the development of alternative energy projects (see Objective 3d: Actions for 2001-2003) **3d.3** Work with IFIs, civil society and other stakeholders to operationalize the Comprehensive Development Framework as a practical strategy for promoting long-term sustainable development in poor countries **3d.4** Expand the focus on sustainable development in the Department's annual reports to Parliament on the Bretton Woods institutions and the European Bank for Reconstruction and Development
	3e. Increasing Knowledge and Understanding of International Environmental Financial Practices	**3e.1** Participate in upcoming activities and conferences of the United Nations Environment Programme Financial Services Initiatives
4. Greening Operations	**4a.** Enhance Awareness of the Environmental Impact of Our Operations	**4a.1** Develop and implement a communications strategy to encourage the adoption of best practices **4a.2** Promote Earth Day and Environment Week
	4b. Develop Tools and Implement Programs to Support Best Practices	**4b.1** Review existing programs **4b.2** Establish baselines and benchmarks for progress in five areas (solid waste, energy use, fleet management, procurement and toxic substances) **4b.3** Develop inventories in key areas for regulated substances **4b.4** Promote the use of ethanol-blended fuels for Finance's three vehicles **4b.5** Develop a purchasing guide and provide related training **4b.6** Develop means for selling debt to Canadians electronically

Management Structure

Goal: Support the implementation of the Department's sustainable development strategy

Actions:
- Designate a departmental sustainable development champion
- Establish a sustainable development working group of officials to convene regularly, report on the implementation of the SDS and discuss key SD issues
- Report annually to a senior departmental management committee: review progress and discuss future directions

Improved Management and Co-ordination

Implementing the 2001-2003 Sustainable Development Strategy

To better ensure implementation of the 2001-2003 sustainable development strategy, the Department will establish an enhanced management structure. This management structure will build upon the SDS co-ordination responsibilities established by the 1997 strategy and the Department's existing management structures for dealing with broad policy issues and sharing information. It is expected that this approach will promote greater awareness and commitment among all staff, including senior management, to sustainable development.

In the 1997 SDS the Department mandated its Departmental Co-ordinating Committee (DCC) as the vehicle for addressing sustainable development issues, including implementation and reporting on the 1997 strategy. DCC is a senior committee comprising general directors from each branch and other senior officials, and is responsible for broad policy co-ordination within the Department, including co-ordination of the preparation of the federal budget. For the 2001-2003 SDS, DCC will retain this role and increase its monitoring of the strategy's implementation and progress. The Department will also designate the Assistant Deputy Minister of its Economic Development and Corporate Finance Branch to be the sustainable development champion for the Department. In addition to having the key oversight of implementation of the Department's SDS, the departmental champion will also be the focal point in the Department for government-wide SD issues, including co-ordination with other departments on their activities related to SD.

In practice, the successful implementation of the objectives and actions identified in the 2001-2003 SDS is the shared responsibility of the various branches in the Department. In fact, the most immediate responsibility for each action in the strategy usually rests with the particular branch of the Department that identified the issue as a priority in the issue scan. In support of implementing the strategy's actions, each branch will designate an officer to a sustainable development working group to be responsible for co-ordinating updates to DCC on the status of the strategy's implementation and for identifying future directions.

Reporting on Progress

A progress report on the implementation of the sustainable development strategy will be provided annually in the *Departmental Performance Report* (DPR). Finance, like all departments, prepares a DPR each fall on the status of activities planned in the Department's *Report on Plans and Priorities*, prepared annually each spring. When reporting on the implementation of action commitments in the SDS, the DPR will, in particular, report progress in the context of performance measures that have been indicated for a number of the strategy's objectives.

Moreover, to the extent that budget initiatives related to sustainable development are implemented, they will be included generally in Finance's overall reporting on SD, with special note of the department, agency or other organization that will be responsible for its implementation. Lastly, various branches in the Department will also look to expand the focus on sustainable development in other relevant annual reporting documents or through other special reports

Co-ordination of Broad Sustainable Development Issues

Under the direction of the departmental SD champion, the Economic Development and Corporate Finance Branch, which has a section dealing with resource, energy and environment issues, will remain the focal point in the Department for co-ordinating cross-cutting sustainable development actions. This includes co-ordinating policy approaches related to other departments' sustainable development activities and the SD implications of other departments' policy and spending proposals.

Lastly, to improve awareness of the Department's sustainable development objectives and goals, copies of this strategy will be made available to all members of the Department.

Improved Management and Co-ordination	
Champion:	Assistant Deputy Minister, Economic Development and Corporate Finance Branch
Co-ordination:	Departmental Co-ordinating Committee (DCC) Sustainable development working group of officials
Delivery:	All branches
Focal point:	Economic Development and Corporate Finance Branch
Awareness:	All employees

KEY ISSUE #1: Building the Future

"Building the Future" highlights Finance's role in implementing some of the Government's key SD priorities. First, it involves addressing intergenerational equity by strengthening fiscal balances and solidifying major social programs. It also involves implementing other targeted expenditure initiatives through the budget process.

OBJECTIVE 1a: Maintaining a Healthy Fiscal Climate

Maintaining a healthy fiscal climate is one of the key ways of ensuring that future generations are able to meet their social, economic and environmental goals. A healthy fiscal climate is one in which all aspects of the Government's fiscal finances are in balance – one in which the debt-to-GDP ratio is not burdensome; debt servicing costs do not account for an unduly large portion of government revenues; the level of government revenues in relation to the economy is not so high as to stifle growth, innovation and job creation; and the range of available social programs effectively addresses the needs of Canadians.

The Deficit

When the current government took office in 1993, the Government's fiscal finances had undergone a 20 year period of slow and steady decline. Chronic deficits had driven up the debt-to-GDP ratio from less than 20 per cent in 1974-75 to over 70 per cent in 1993-94. Over the same period the share of revenues the Government was obliged to pay in debt interest costs rose from 11 per cent to nearly 33 per cent. Continuing down this path was clearly unsustainable. Canada was becoming increasingly vulnerable to economic shocks and the fluctuations in international financial markets. Future generations faced the threat of high interest rates, a heavy debt burden, and depressed economic growth and job creation.

Progress

Initial steps were aimed at eliminating the record $42-billion deficit recorded in 1993-94. The measures implemented to address the deficit were a resounding success. The federal government eliminated its deficit in 1997-98, posting the first surplus in more than 25 years. A second surplus was recorded in 1998-99. In 1999-2000, the Government posted a record $12.3-billion surplus. Looking forward, the projections of four leading private sector economic forecasting firms contained in the 2000 fall *Economic Statement and Budget Update* show balanced budgets or better through 2004-2005. This fiscal turnaround represents a crucial step in regaining Canada's fiscal health.

The Debt

With debt reduction now underway, the next challenge in securing a healthy fiscal climate lies in ensuring the debt-to-GDP ratio remains on a permanent downward track. Despite three years consecutive surplus budgets, the Government still has a high debt burden, relative to both historical Canadian experience and to the current experience of other developed countries. A high debt burden reduces the ability of future generations to meet their needs by shifting on to them the obligation of high debt servicing costs and ultimately the full cost of paying down the debt.

Progress

Actions taken by the Government over the last four years have placed the debt ratio on a permanent downward path. The elimination of the deficit and the introduction of the Debt Repayment Plan have had a substantial positive effect in reducing the level of public indebtedness. Including the $12.3-billion surplus in 1999-2000 and the commitment to an additional $10-billion debt paydown in 2000-2001, the Government's total debt paydown over the last four years totals $28.7 billion. Going forward, the Government will continue its Debt Repayment Plan, setting aside an annual $3-billion Contingency Reserve. However, the Government has added a new element to the Plan. Each fall it will announce, economic circumstances permitting, whether a larger debt paydown is possible.

Canada's debt-to-GDP ratio peaked in 1995-96 at 71.2 per cent. Aided by the Debt Repayment Plan, the debt ratio fell to 58.9 per cent in 1999-2000. Moreover, the 2000 fall *Economic Statement and Budget Update* shows that the debt ratio should fall to about 40 per cent by 2005-2006.

Putting the debt ratio on a permanent downward path will ensure that future generations do not pay the price for consumption from which they may not have benefited. A lower debt ratio will also free fiscal resources currently earmarked for debt servicing for more productive ends such as further debt reduction, reduced taxes or increased spending in priority areas.

Actions for 2001-2003:

1a.1 The Government is committed to balanced budgets or better in 2000-2001 and in 2001-2002.

1a.2 The Government will pursue the Debt Repayment Plan to ensure that the debt-to-GDP ratio remains on a permanent downward track.

1a.3 Most of the elements of the Five-Year Tax Reduction Plan announced in the 2000 budget and the 2000 fall *Economic Statement and Budget Update* are already in place. The Plan will provide fair and lasting tax relief that is not financed with borrowed money.

Performance Measures

Measure of performance on the above SD actions can be based on the following indicators:

- balanced budgets or better in 2000-2001 and 2001-2002;
- debt-to-GDP ratio on a permanent downward track; and
- implementation of the Five-Year Tax Reduction Plan.

OBJECTIVE 1b: Building a Strong Society

Transfer Payments

The Government has taken steps to secure health, education and social programs for the present generations of Canadians and for future generations as well.

The federal government's principal support for Canada's health and social programs is the CHST, for which total entitlements will reach an all-time-high of $30.8 billion in 2000-2001. This transfer provides flexibility to provinces in designing social programs responsive to the needs of Canadians, thus contributing to the overall sustainability of Canada's health and social programs.

In addition, Equalization program payments of approximately $9.9 billion a year in cash ensure that all provincial governments can provide reasonably comparable levels of public services to their residents at reasonably comparable levels of taxation, thus promoting equity among Canadians wherever they may live. In the case of territorial governments, Territorial Formula Financing also promotes equity among Canadians by providing approximately $1.4 billion annually to enable the provision of public services in the north comparable to those provided by provincial governments.

Progress

To promote a more sustainable health care system, the 1999 and 2000 budgets announced a combined $1.8 billion in new federal health initiatives to improve health information systems and health protection services, promote health-related research and innovation, and improve health care for First Nations and Inuit. In addition, the 1999 and 2000 budgets provided for increases in the CHST of $11.5 billion over five years and a further $2.5 billion over four years, respectively.

Finally, to provide better planning stability for provincial and territorial governments, all three major transfer programs – the CHST, Equalization and Territorial Formula Financing – were put on common five-year funding tracks in 1999. On September 11, 2000, Canada's first ministers reached historic agreements on health renewal and early childhood development. To support these agreements the federal

government has legislated an increase of $23.4 billion through to 2005-2006, one of the largest single expenditures by any Canadian government in the country's history.

The current CHST legislative framework, set to expire in 2003-2004, was extended for another two years, thus providing a new five-year funding plan. In addition, the Government has committed to a mid-term review in 2003-2004, when it will establish funding levels for two additional years (2006-2007 and 2007-2008). Provinces and territories are thus being provided with a rolling five-year planning framework to fund core social programs for Canadians.

In 2000-2001 total transfers under the three main transfer programs will reach an estimated $39.9 billion and will continue to grow over the coming years, allowing provincial governments to provide sustainable health care, post-secondary education and other social programs important to Canadians.

Actions for 2001-2003:

1b.1 The Department, on behalf of the Government, will ensure predictable and growing funding for health and social programs to help build and maintain a strong society and to improve the quality of life of Canadians.

1b.2 To provide increased planning stability for provinces and territories to provide programs and services to Canadians, the Department will conduct a mid-term review in 2003-2004 of the current CHST legislative framework, set to expire in 2005-2006. The review will establish funding levels for two additional years (2006-2007 and 2007-2008).

1b.3 The Department, on behalf of the Government, will ensure that fiscal disparities across Canada are addressed through the Equalization and Territorial Formula Financing programs such that less prosperous provincial governments are able to provide their residents with reasonably comparable levels of public services at reasonably comparable levels of taxation and that territorial governments can provide services comparable to those provided by provincial governments.

Performance Measures

CHST, Equalization and Territorial Formula Financing transfers are reported annually to the public and Parliament through the federal budget and Main Estimates, and are subject to ongoing review and consultations with provinces and territories leading up to program renewals.

The Retirement Income System

Changing demographics in Canada, as well as in other industrialized countries, are exerting a powerful influence over the future needs of Canadians who are no longer in the workforce. A rapidly aging population, low birth rates and rising life expectancies suggest that by 2030 there will be three workers to support every retired person, compared to five today.

Progress

The Government has taken some important steps to make Canada's valued social programs sustainable, not just today but for future generations. The federal and provincial governments put in place major reforms to the CPP at the beginning of 1998 to make it sustainable. The most recent CPP actuarial report confirms that these changes are expected to be sufficient to sustain the CPP throughout the aging of the

population and the retirement of the baby boom generation. These findings were supported in a report by an independent panel of private sector actuaries.

Together, the three pillars of the Canadian retirement income system (old age security, the CPP, and tax-assisted private retirement savings) are working well to ensure that standards of living are maintained at retirement.

Actions for 2001-2003:

1b.4 Monitor developments and make adjustments when necessary, or in the context of the CPP's 2001-2003 review, to ensure that the retirement income system remains sustainable and continues to meet Canadian seniors' needs.

OBJECTIVE 1c: Implementing Key Federal Sustainable Development Priorities

Addressing Sustainable Development Priorities

As discussed earlier, the Department has a unique role in the preparation of federal budgets. For instance, in its central agency role, it provides policy analysis and advice to departments on new policy and spending proposals developed for the Government's consideration. In addition, it consults extensively with stakeholders, who provide it with their own budget submissions for consideration. These ongoing activities contribute to shaping the Government's approach to sustainable development through new budget initiatives.

Progress

Since the Department released its first sustainable development strategy in 1997, it has contributed to the development of a number of the Government's key sustainable development expenditure initiatives, announced in various federal budgets.

Initiative	Federal Budget	Administered by/in Co-operation With
Climate Change Action Fund		
▪ New funding of $150 million over three years was announced for the Climate Change Action Fund (CCAF) to build momentum towards concrete actions and results on reducing greenhouse gas emissions in Canada (1998 budget). The CCAF was renewed for another three years at $50 million per year in the 2000 budget.	1997, 2000	Environment Canada, Natural Resources Canada
National Implementation Strategy (NIS) on Climate Change		
▪ New funding of $500 million over five years was provided for implementing the First Business Plan of the NIS for initiatives related to energy efficiency, renewable energy, etc.	October 2000	Environment Canada, Natural Resources Canada, in co-operation with the provinces and territories

Initiative	Federal Budget	Administered by/in Co-operation With
Energy Efficiency and Renewable Energy		
▪ New funding of $60 million for three years for energy efficiency and renewable energy programs was provided, beginning in 1998 and renewed in 2000.	1997, 2000	*Natural Resources* Canada
▪ Federal support for the Atlantic Wind Test Site of Prince Edward Island was continued.	1999	Natural Resources Canada
▪ Funds were provided to the Federation of Canadian Municipalities for a program to help municipalities identify opportunities for energy savings in their operations.	1999	Federation of Canadian Municipalities, Environment Canada, Natural Resources Canada
▪ New funding of $25 million was provided for a Green Municipal Enabling Fund to help municipalities determine the feasibility of and best approaches to renewable energy, building retrofits, water conservation, waste management and urban transit.	2000	Federation of Canadian Municipalities
▪ New funding of $15 million was provided to expand a pilot initiative to procure green power for 10 years for federal facilities in Saskatchewan and Prince Edward Island.	2000	Public Works and Government Services Canada, Saskatchewan, Sask Power Ltd, Prince Edward Island, Natural Resources Canada
Promoting Environmental Technology		
▪ Increased annual funding of $34 million was provided to the National Research Council's Industrial Research Assistance Program to help small and medium-sized businesses foster strategic innovation and implement state-of-the-art technologies for using energy, water and natural resources more efficiently and for preventing pollution.	1998	Industry Canada, National Research Council
▪ New funding of $100 million was provided for a Green Municipal Investment Fund – a revolving fund to support projects in areas such as energy and water savings, urban transit and waste diversion in communities.	2000	Federation of Canadian Municipalities
▪ New funding of $100 million was provided for a Sustainable Development Technology Fund to help stimulate the development and demonstration of new environmental technologies, particularly those aimed at reducing greenhouse gases, such as fuel cells and wind turbines.	2000	Natural Resources Canada, Environment Canada

Initiative	Federal Budget	Administered by/in Co-operation With
Protecting the Environment and Ecosystems		
▪ Federal funding of $42 million over three years was provided to Environment Canada to meet responsibilities related to screening toxic substances under the Canadian Environmental Protection Act.	1999	Environment Canada
▪ New funding of $12 million was provided to support the establishment of a United Nations Biospheric Reserve in Clayoquot Sound.	1999	Clayoquot Sound Biospheric Trust Society
▪ New funding of $22 million for three years and then stabilized funding at $9 million per year was provided to improve the federal government's capacity to ensure compliance with pollution control standards.	2000	Environment Canada
▪ New funding of $40 million over five years was provided to help clean up 16 areas of concern through Great Lakes 2000.	2000	Environment Canada, Natural Resources Canada, Fisheries and Oceans Canada
▪ New funding of $90 million for three years and stabilizing thereafter at $45 million annually was committed to implement a national strategy for species at risk, including the introduction of federal species protection legislation and stewardship programs.	2000	Environment Canada
Measuring Progress on Sustainable Development		
▪ New funding of $9 million over three years was provided to develop environmental and sustainable development indicators.	2000	Environment Canada, NRTEE
Environmental Science		
▪ New funding of $60 million was provided to fund the Canadian Foundation for Climate and Atmospheric Sciences to strengthen Canada's climate research capacity.	2000	Canadian Meteorological and Oceanographic Society

Actions for 2001-2003:

1.c.1 In the context of planning for future budgets, Finance will continue to work closely with other departments and stakeholders to identify ways to address current and emerging sustainable development priorities.

KEY ISSUE #2: Integrating the Economy and the Environment

"Integrating the Economy and the Environment" involves building on the Department's analytical foundation and knowledge base in support of more fully integrating environmental and economic considerations into targeted tax, spending and related policies.

OBJECTIVE 2a: Using the Tax System

On an ongoing basis, the Department examines ways to better integrate the economy and the environment through targeted use of the tax system. The primary goal has been to identify specific areas where the tax system may be acting as an impediment to the attainment of sustainable development.

Progress

Tax Initiative	Implemented in Federal Budget
Conservation of Ecologically Sensitive Lands	
• Removal of the 20-per-cent income limit on the use of the charitable tax credit for donations of ecologically sensitive land for conservation purposes.	1995
• Reduction from two-thirds to one-third of the income inclusion rate on capital gains arising from donations of ecologically sensitive lands and easements.	2000
Energy Efficiency and Renewable Energy	
• Changes to Class 43.1, including relaxing the "specified energy property rules" to assist in the financing of renewable energy investments.	1996
• Extension of the use of flow-through shares to investments in renewable energy through the introduction of the Canadian Renewable and Conservation Expense (CRCE).	1996
• Inclusion of the cost of test wind turbines in the CRCE.	1997
• Expanding eligibility for Class 43.1 capital cost allowance (CCA) treatment to certain acquisitions of used equipment and reducing the qualification threshold for photovoltaic systems.	1997
• Changes to the definition of Class 43.1 to include equipment for generating electricity from solution gas that would otherwise be flared. This change creates an additional incentive for firms to turn this type of waste energy into electricity.	1999
• Extension, on a phased-in basis, of the 7-per-cent manufacturing and processing tax credit to income from the sale of steam. This will assist the development of district energy projects, improving the energy efficiency of the heating and cooling of buildings in Canada.	2000
• Revision of CCA rates. This revision has brought the CCA rates more in line with the useful life of the assets in question, ensuring that the tax system does not send signals that distort the marketplace. Specific examples include the increase in CCA rates for rail assets and assets for the production and distribution of heat. Another example is the provision of a separate class election for manufacturing and processing equipment, which will remove a barrier to the replacement of old machinery with more productive new technology.	2000

In addition, the February 2000 budget and the October 2000 *Economic Statement and Budget Update* proposed a phased-in 7-per-cent cut in the statutory tax rate for the most highly taxed corporate sectors. The non-renewable natural resource sectors were excluded from this rate reduction until certain existing preferential provisions can be further assessed. Creating a more level playing field between resource extraction activities and other industries is an important element in maintaining a sustainable tax system.

In moving forward, the Department will undertake the following actions to ensure that the tax system contributes to SD:

Actions for 2001-2003:

2a.1 The Department will continue to examine areas where the tax system may be having an impact on the longer-term goals of sustainable development.

2a.2 The Department will continue to assess policy options aimed at levelling the playing field between various economic activities.

2a.3 The Department will evaluate all environment-related tax proposals as they are received from stakeholders, including those meant to encourage environmentally positive activities and discourage environmentally negative ones.

OBJECTIVE 2b: Developing Practical Uses of Economic Instruments

In addition to the potential for using targeted tax changes to address environmental concerns, there is increasing interest in the scope for using market-based approaches or "economic instruments" to influence economic behaviour.

Economic instruments such as taxes or tradeable permit systems use price signals to encourage producers and consumers to recognize the environmental costs of their decisions. In theory, this approach can help address the problem of "externalities" (i.e., environmental impacts that occur as the result of an activity and whose costs are attributed to no one) by including the costs of pollution in the costs of production and consumption – in keeping with the principle of "polluter pays." Also, market-based mechanisms can help achieve environmental objectives at a lower cost than policies that rely strictly on regulatory approaches because decentralized decision making by affected firms, organizations and individuals will generally lead to the allocation of scarce resources in a more efficient manner.

Progress

While the theory of economic instruments is well understood, in practice their use towards achieving environmental goals has remained fairly limited. Recently there has been a growing interest in using innovative and complex instruments, such as tradeable permit systems, which can involve establishing a cap on allowable levels of pollution and then enabling the private sector to trade permits that grant the right to pollute. Such systems have been successfully introduced for methyl bromide and hydrochlorofluorocarbons, which are ozone-depleting substances.

The potential for using tradeable permits to address greenhouse gas emissions has also received a great deal of attention since 1997, when Canada agreed under the Kyoto Protocol[5] to reduce its greenhouse gas emissions to 6 per cent below their 1990 levels by 2008-2012. Beginning in 1998 the Government established the multistakeholder National Climate Change Process (NCCP), through which a number of Issue Tables looked at options for achieving this reduction and the costs of those options.

As part of this process, the Tradeable Permits Working Group (TPWG) was established to explore the potential contribution of mandatory domestic emissions trading systems towards achieving a substantial reduction in greenhouse gas emissions in Canada. The members of the TPWG included representatives from industry, academia, environmental organizations and the federal and provincial governments. The Department of Finance provided the time of three officers for this work, including a senior official to act as the group's chair. In April 2000 the TPWG released its options report to the NCCP for consideration by federal and provincial governments.

The Department also participated in the economic modelling exercises of the Analysis and Modelling Group (AMG) of the NCCP, whose task it was to assess the economic impacts of alternative approaches to emissions reductions in Canada as identified by the Issue Tables. The Department contributed significantly to the AMG work by carrying out simulation analysis with one of the economic models it maintains. The AMG's overall report (which also drew on results from other models) was released in the fall of 2000.

In moving forward, the Department plans to undertake the following actions related to economic instruments:

Actions for 2001-2003:

2b.1 Building on the report of the TPWG, the Department will lead further work on the design of a potential domestic greenhouse gas emissions trading system in co-operation with other federal departments, governments and stakeholders. Priority areas of further work were identified by the TPWG in its April 2000 report.

2b.2 The Department will continue to conduct economic research and analysis, including through the use of one of the economic models the Department maintains, to assess the potential costs of a major economic instrument, such as emissions trading, and other policy or program options to reduce emissions of greenhouse gases.

2b.3 The Department will participate in an initiative led by the NRTEE on ecological fiscal reform.

2b.4 The Department will continue to monitor and evaluate the development and use of economic instruments in other OECD countries. Information on country-specific experience benefits the Department when considering the appropriateness of economic instruments for use in Canada.

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[5] In December 1997 ministers and officials from approximately 160 countries met in Kyoto, Japan, for the Third Conference of Parties to the United Nations Framework Convention on Climate Change and agreed to the Kyoto Protocol. Under this legally binding protocol, industrialized countries must reduce their collective emissions of greenhouse gases by 5.2 per cent by the period 2008 to 2012. Canada's reduction target is 6 per cent below 1990 levels. Canada signed the Kyoto Protocol at the United Nations in New York on April 29, 1998.

OBJECTIVE 2c: Integrated Decision Making: Increasing the Knowledge Base

Making good decisions in respect of SD requires good information and a comprehensive understanding of the issues, costs and benefits. On issues that are economic- and socio-economic-oriented, the Department of Finance, like many others, is able to make use of a well-developed and extensive knowledge base of information including data from other federal departments and agencies, other governments, the private sector and domestic and international institutions. The Department also has the internal capacity to interpret and analyze data on economic and socio-economic issues that are most related to its internal policy responsibilities. At the same time, it is becoming more and more apparent that policy issues are cross-cutting and that there is a need to better understand and consider the sustainable development dimensions of all policies. As a result, the Department is committed to improving its knowledge base on environment and sustainable development issues that are most related to its policy responsibilities.

Progress

Through a commitment in its 1997 sustainable development strategy, the Department has been working on compiling a catalogue of information on the structure and level of existing federal and provincial taxes on energy consumption and taxes on transportation in Canada. When released this catalogue, together with two previously released reports describing the tax treatment of virgin versus recycled materials and renewable versus non-renewable resources, will help build the knowledge base in the Department on the structure of taxation in areas most related to environmental concerns.

In addition, in the 2000 budget, $9 million was provided to the NRTEE and Environment Canada for a three-year initiative to develop environmental and sustainable development indicators in collaboration with Statistics Canada. These indicators will provide a better basis for assessing the interactions between the economy and the environment and improve Canada's ability to measure its progress on improving the environment.

Actions for 2001-2003:

2c.1 Between 2000 and 2003 the Department will participate in the Budget 2000 initiative on environmental and sustainable development indicators led by the NRTEE and Environment Canada in collaboration with Statistics Canada. This initiative will develop new indicators of sustainability that are relevant to the Department's policy role.

2c.2 The Department will prepare a case study on different nations' use of assistance for green power, to be completed by 2003.

2c.3 Beginning in 2001 the Department will develop an inventory of economic research on the relationship between the new economy and the environment, focusing on the role of innovation.

KEY ISSUE #3: Sustainable Development in the Global Economy

"Sustainable Development in the Global Economy" involves addressing globalization by increasing the Department's understanding of environment/trade linkages and international competitiveness through work with other departments and international institutions.

OBJECTIVE 3a: Participate in Negotiating International Environmental Agreements

Multilateral Environmental Agreements

Along with other federal departments, Finance is actively involved in assessing the Government's approach to Multilateral Environmental Agreements (MEAs). A number of agreements have been put into place including: the Convention on International Trade in Endangered Species of Wild Fauna and Flora; the Montreal Protocol (ozone); the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal; the Biosafety Protocol; the PIC (prior informed consent procedures to trade in certain banned and severely restricted chemicals) Convention; and the Persistent Organic Pollutants Convention. Other MEAs are still being negotiated internationally, including the Kyoto Protocol.

Progress

The Department has continued to be involved in the Government's approach to ongoing international negotiations on the Kyoto Protocol. These negotiations cover the potential design and implementation of various international mechanisms, such as international emissions trading, to help countries reduce their greenhouse gas emissions.

In support of initial international efforts to combat climate change and to help developing countries begin to address their growing greenhouse gas emissions and undertake sustainable development, the 2000 federal budget provided $100 million to the Canadian International Development Agency for the transfer of technology and related initiatives. In addition, the 2000 budget also provided $15 million to the World Bank's Prototype Carbon Fund, which invests in energy efficiency and renewable energy projects in developing countries and economies in transition.

Overall, the Department seeks to enhance coherence between trade and environment agreements so as to minimize trade tensions over environmental issues. This is done, for instance, by monitoring negotiations or implementation of MEAs and providing a co-ordination role in this regard for the United Nations Environment Programme in co-operation with the WTO Committee on Trade and Environment.

Actions for 2001-2003:

3a.1 The Department will continue to work with other departments on Canada's ongoing approach to international negotiations on climate change, focusing primarily on economic and fiscal issues under negotiation.

3a.2 The Department will support initiatives to improve coherence and co-ordination among international trading partners to build trust and understanding on trade and environment issues. This includes an initiative to have the United Nations Environment Programme explore, in co-operation with the WTO, linkages between MEAs and WTO activities.

OBJECTIVE 3b: Integrating Environment Into Future Negotiations on Trade and Investment Agreements

Environment-Trade Linkages

As an active participant in multilateral trade and investment negotiations, the Department has opportunities to enhance sustainable development by enhancing market access through trade liberalization or trade disciplines that minimize trade-distortive practices. Market access, in turn, allows Canadian firms to enhance their competitiveness and consumers to access new and better quality products and services at lower prices, including environment-related products and services such as clean technologies and environmental management services.

Through its role in trade policy, the Department is able to develop a better understanding of the linkages between trade and environment issues and contribute to sustainable development through enhanced policy coherence. Specific initiatives in this area involve exploring practical approaches for conducting environmental assessments of trade negotiations, participating in symposiums or conferences on trade/environment linkages, conducting public consultations on the relationship between trade and goods or trade and services, considering the inclusion of environment-related provisions in new trade agreements and continuing to monitor work on subsidies and the environment.

Moreover, given the Department has a lead role in specific policy areas such as import policy, including tariffs, it may propose specific initiatives that contribute to sustainable development, such as the promotion of trade in environmental goods.

Progress

The Department's activities related to the SD commitments in the 1997 SDS include:

- Participated in the March 1999 High Level Symposium on Trade and Environment at the WTO with DFAIT and other departments and stakeholders to identify trade and environment issues relevant to multilateral trade negotiations.
- Participated in consultations on multilateral trade negotiations and in the follow-up to those consultations.
- Contributed to the completion of the DFAIT Retrospective Analysis of the 1994 Canadian Environmental Review of the Uruguay Round.
- Participated in preliminary policy development on methodologies for undertaking environmental reviews of trade agreements and input to the Retrospective Analysis of the 1994 Canadian Environmental Review of the Uruguay Round.
- Provided support for the extension of certain provisions addressing environmental issues in the WTO Agreement on Subsidies and Countervailing Measures (this category includes a carve-out for certain subsidies for environmental adaptation). Unfortunately, there was no international consensus for the extension of these provisions in the WTO Subsidies and Countervailing Measures Committee and they lapsed in December 1999.
- Provided support for the United Nations Conference on Trade and Development work program, including its environment-related capacity-building elements.
- Supported the consideration or inclusion of environment-related provisions in preparations or negotiations of recent free trade agreements. For instance, in the context of the Free Trade Agreement of the Americas, the Government's position is that each negotiating group should consider relevant trade and environmental issues.

In addition, other initiatives for the promotion of environmental goods and services include the Department's work with DFAIT on an Asia-Pacific Economic Co-operation Forum environmental sector initiative to achieve the liberalization of trade in environmental goods and services; and the review of specific requests to remove tariffs where they are identified as a significant disincentive to the acquisition of environment technology products.

Actions for 2001-2003:

In the coming years the Department plans to further its understanding of trade-environment linkages for appropriate policy co-ordination and to maintain its support for the promotion of trade in environmental goods.

3b.1 The Department will continue to work with DFAIT on trade and environment linkages in the context of the WTO and trade negotiations. In particular, this will involve continuing to explore practical approaches for conducting environmental assessments of trade negotiations, participating in various symposiums or conferences on trade-environment linkages, conducting public consultations on the relationship between trade and goods or trade and services, considering the inclusion of environment-related provisions in new trade agreements, and continuing to monitor the work undertaken on linkages between subsidies and the environment.

3b.2 The Department will promote free trade in the environmental sector by continuing to work with DFAIT and Industry Canada on multilateral environmental sector initiatives (such as the one that was initiated in the context of APEC) and in the context of future multilateral negotiations. This involves, for example, support for zero tariffs for environmental goods. In addition, the Department will maintain its commitment to review specific requests to remove tariffs where they are identified as a significant disincentive to the acquisition of environment technology products.

OBJECTIVE 3c: Developing Environmental Guidelines for Export Credit Agencies

As the economy takes on a more global dimension, sustainable development issues such as the environment, social development and human rights are becoming increasingly linked to international trade. This link is especially important to the activities of countries' export credit agencies, whose mandates are generally to promote exports and help their own domestic companies gain market access abroad. In Canada, for instance, the Export Development Corporation (EDC) plays a key role in supporting Canadian exporters by providing innovative trade finance solutions. Globally, export credit agencies are challenged with integrating the economic, social and environmental aspects of development.

Progress

In April 1999 the EDC implemented its environmental review framework to promote environmental protection and sustainable development. Subsequently, in the context of EDC's Mandate Review, the Government has asked the Office of the Auditor General, which includes the Commissioner of the Environment and Sustainable Development, to audit the adequacy of EDC's environmental framework and EDC's performance in implementing it when assessing specific projects. This work is expected to be completed in early 2001.

Moreover, the Government has undertaken to give statutory authority to EDC's environmental review process by mid-2001 and to confirm the ongoing oversight by the Auditor General of EDC's performance. The Government believes that environmental reviews should be made public early in the project-financing approval process, subject to competitive and commercial considerations. Moreover, the environmental review framework should be open to further public assessment and consultations to ensure that its evolving standards are well understood.

At the international level, Canada has been playing a leadership role in promoting the need for sound environmental guidelines for export credit agencies. The most effective way to achieve results in environmental protection, while maintaining a level playing field for Canadian exporters, is to establish international environmental guidelines so that no one country is put in a competitive disadvantage. The G8 and the OECD ministers have pledged to develop common strategies to manage environmental issues. A concrete work plan has already been developed among OECD member countries to discuss the technical aspects of assessing the environmental effects of projects, with a view to achieving a common approach on export credits and the environment by 2001.

Actions for 2001-2003:

3c.1 The Department, together with DFAIT, will participate in and contribute to the development of common environmental guidelines for export credit agencies as mandated by the OECD and the G8.

OBJECTIVE 3d: Working With International Financial Institutions

Federal Involvement With International Financial Institutions

Responsibility for the management of Canada's relations with the IFIs is shared between the Minister of Finance and the Minister of Foreign Affairs. The Minister of Finance is Canada's governor for the International Monetary Fund (IMF), the World Bank and the European Bank for Reconstruction and Development (EBRD). The Minister of Foreign Affairs is Canada's governor for the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank; the Canadian International Development Agency manages the ongoing relationship with these latter institutions. Contributions to the IFIs account for a significant portion of Canada's Official Development Assistance. Increasingly, ensuring that activities help put the concept of sustainable development into practice is gaining in importance for these institutions.

Progress

Canada was one of the first countries to encourage the IFIs to take a more integrated approach to development by considering not only the economic impacts, but also the social and environmental consequences of their operations. Pressure from Canada and other countries has helped replace the previous approach, where support for the environment was often seen to conflict with growth, with a recognition that longer-term economic development and environmentally sustainable practices must go hand in hand.

- International Monetary Fund

The primary role of the IMF is to promote macroeconomic stability in the international financial system and in individual member countries, an essential factor in helping member countries start on the path to longer-term sustainable development. The Fund's environmental mandate is targeted to situations where environmental problems have a bearing on macroeconomic stability and sustainable growth. However, it is increasingly clear that unsustainable environmental policies can undermine the well-being of developing countries, and similarly, that sound macroeconomic policies can help to improve environmental conditions. Over the last few years the Fund has worked with the World Bank and other international organizations to develop a greater understanding of the relationship between economic policies and environmental change. Environmental issues are regularly dealt with in policy dialogues between the Fund and member countries.

- The World Bank

The World Bank has moved from a "do-no-harm" approach to the environment to an approach focused on targeted environmental interventions and an increased effort to integrate environmental concerns into sectoral and macroeconomic policies and operations. Canada has long been a vocal advocate of the need for the World Bank to better integrate environmental considerations into its operations and has been a keen supporter of the Bank's recent efforts.

For example, under pressure from Canada and others, environmental lending as a proportion of total bank lending increased from 7 per cent to 10 per cent in fiscal year 2000 (FY00) compared to last year. At the end of FY00, there were 97 active stand-alone environmental projects worth $5.16 billion. In addition, there were numerous sector projects with primarily environmental objectives amounting to $10 billion. Thus, the "broad" environmental portfolio stands at some $15 billion. The FY00 environment portfolio illustrates the World Bank trend towards smaller operations, which take into account better community needs and capacities. However, while the average size of environmental projects has declined, the number has increased. Environmental issues are also being more closely integrated with project lending and country assistance strategies. The Bank's environmental assessment policy, which is systematically applied to Bank projects, has led to improvements in project implementation. Also, the Bank has made a concerted effort to better integrate environmental considerations into Country Assistance Strategies through the Country Assistance Strategy and the Environment program. The program's goal is to develop a broad approach and analytical framework to incorporate environmental issues into Country Assistance Strategies, so that they can be replicated across countries and regions.

Canada and other stakeholders continue to underline the importance of protecting the global environment for current and future generations. The World Bank has broadened its commitment to the environment from a national focus to incorporate explicitly global sustainability as part of its assistance strategy. The Global Environment Facility Program continued to grow in FY00 to reach a high of a total of $280 million, a 12-per-cent increase over the previous year.

Canada is also a strong advocate of the World Bank's consultations with civil society on the environmental aspects of its projects. At present the Bank is building an environment strategy with the benefit of extensive external consultations with key stakeholders. The policy will be presented to the Board for approval in late 2000. It focuses on building the Bank's mission to fight poverty and support development, on linking environmental outcomes to overall development objectives of the developing world, and on selectivity and partnerships.

The Bank and the Fund, along with the regional development banks, are also involved in broader sustainability projects. The Heavily Indebted Poor Countries Initiative seeks to reduce the debt burden of these countries to a sustainable level by writing off a portion of their debts; the new Comprehensive Development Framework is a country-owned and partnership-based development strategy that seeks long-term, sustainable growth and development for poor countries.

- European Bank for Reconstruction and Development

Given the serious ecological disasters in most of its central and Eastern European program countries, the EBRD is the first IFI to have been given a proactive environmental mandate by its founders. It is directed by its statutes to "promote in the full range of its activities, environmentally sound and sustainable development."[6]

Since its inception the EBRD has made significant investments to improve energy efficiency and municipal and environmental infrastructure (e.g., sewage and wastewater treatment). Gaps in these areas have been an important source of environmental degradation in the region, which the EBRD continues to address. Notable among its efforts is a joint EBRD private sector equity fund, established in 1999, which provides capital for firms seeking to invest in energy efficient products or energy saving techniques.

Since both the EBRD and the World Bank undertake projects, they are required to undertake environmental assessments for any projects that could have significant environmental implications.

Actions for 2001-2003:

3d.1 Promote macroeconomic stability in the international financial system and in individual emerging economies.

3d.2 Support the work of IFIs in the development of alternative energy projects.[7]

3d.3 Work with IFIs, civil society and other stakeholders to operationalize the Comprehensive Development Framework as a practical strategy for promoting long-term sustainable development in poor countries.

3d.4 Expand the focus on sustainable development in the Department's annual reports to Parliament on the Bretton Woods Institutions and the EBRD.

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[6] Agreement Establishing the European Bank for Reconstruction and Development (signed May 1990, entered into force March 1991).

[7] Alternative energy means support for non-fossil fuel development, including renewable energy (solar power, wind power, hydro, etc., but excluding nuclear energy) and projects that improve the efficiency of energy use.

OBJECTIVE 3e: Increasing Knowledge and Understanding of International Environmental Financial Practices

One of the major benefits of globalization is the facilitation of information sharing. That trend is being put to good use by the United Nations Environment Programme and its Financial Services Initiatives (FSIs).

The FSIs are based on voluntary commitments and are run by financial sector companies. They pledge to promote the role of the financial sector in sustainable development, integrate environmental considerations into business decisions and participate in public awareness and communication. The FSIs, through their activities, provide meeting opportunities for private sector institutions, governments, non-governmental organizations and the scientific community from around the world to share experiences and best practices.

Actions for 2001-2003:

3e.1 The Department will participate in upcoming FSI activities and conferences (this participation began in November 2000 when the Department attended the FSI's annual international round table on finance and the environment) in order to increase our knowledge of what is being done internationally with respect to sustainable development and environmental financial practices, and in collaboration with the work of Canadian companies (mostly banks and insurance companies) involved in this exercise.

KEY ISSUE #4: Greening Operations

"Greening Operations" involves new commitments that are not related to broad policy setting, but rather aim to reduce the Department's use of energy and production of waste, eliminate environmentally harmful actions, and increase the level of awareness among employees on how they can contribute to the Department's goals and apply principles of SD to their daily activities.

Managing Operations

It has long been recognized that the way the federal government manages its day-to-day operations has an important impact on Canada's overall sustainable development performance. From the 1992 *Code of Environmental Stewardship* to *Sustainable Development in Government Operations: A Co-ordinated Approach* released in 2000, the evolution of the federal government's first commitment to green its operations has been marked by many accomplishments and challenges. Over the years the challenges of greening operations have brought departments together to develop the necessary tools, share experiences and provide reports on progress to Parliament and Canadians. Through their sustainable development strategies, departments can express the progress they expect to make as they continue to incorporate sustainable development in their operations.

The scope of the Department of Finance's operations is small compared to that of other departments. There are some 800 employees spread over a few buildings, with the majority at one central location in downtown Ottawa. As a non-custodial department, the Department of Finance is not directly responsible for the renovation, operation and maintenance of the space it occupies. There are, however, several areas of direct responsibility where the Department can reduce the impact on the environment of work-related activities (e.g., solid waste generation, energy use from equipment). Although many small actions may not seem significant when viewed individually, the combined impact can be impressive. Good

communication and feedback will be key to motivate employees to adopt new practices that will reduce the Department's impact on the environment.

OBJECTIVE 4a: Enhance Awareness of the Environmental Impact of Our Operations

Effective communication underpins the Department of Finance's greening initiatives. We will develop a comprehensive communication plan to raise awareness of environmental issues relevant to the Department's operations and identify ways for employees and external parties to contribute to greener government operations.

A clear, consistent communication plan will foster support for green initiatives and participation in them. Incorporating these initiatives, with emphasis on waste management and energy use, will reduce the impact of the Department's operations on the environment.

Actions for 2001-2003:

4a.1 Develop and implement a communications strategy to encourage the adoption of best practices.

4a.3 Promote Earth Day and Environment Week.

OBJECTIVE 4b: Develop Tools and Implement Programs to Support Best Practices

Over the past three years, several programs have been established to provide employees with information and means to reduce the impact of their activities on the environment (e.g., multi-material recycling, Papersave program, pantyhose collection, Canadian Book Exchange, Computers for Schools, and laser cartridge toner disposal). Evaluating what has worked and discovering opportunities for further progress will form the first part of the next strategy. The Department of Finance will pay particular attention to measurement and reporting in the five areas where it has direct influence: solid waste generation, plug-load energy consumption, fleet management, procurement and use of toxic substances. Where the Department has the most impact, benchmarks and targets will be set using common measures, where applicable. In areas where further progress is needed, appropriate measures or program enhancements will be put in place. For example, tools, guides and training to support existing or new programs will be available to address shortfalls and direct progress towards the established targets.

As well, the Department of Finance, through Canada Investment and Savings (CI&S), the special operating agency responsible for managing the retail debt program of the Government, has significantly reduced the number of publications on New Canada Savings Bonds and the quantities produced. The next step for further greening the operations of the program is to develop means for selling debt electronically. In 2000 a pilot was launched for employees of the Bank of Canada to purchase bonds electronically from their desktop. CI&S plans to roll out that pilot with a number of employers next year and is also considering a new pilot for allowing individual Canadians to purchase debt electronically on the Internet.

Actions for 2001-2003:

4b.1	Review existing programs.
4b.2	Establish baselines and benchmarks for progress in five areas (solid waste, energy use, fleet management, procurement, toxic substances).
4b.3	Develop inventories in key areas for regulated substances (e.g., halons for fire protection).
4b.4	Promote the use of ethanol-blended fuel for the Department of Finance's three vehicles.
4b.5	Develop a purchasing guide and provide related training.
4b.6	Develop means for selling debt to individual Canadians electronically.

Performance Measures/Framework for Implementation

A framework for implementing the actions under this key issue and for measuring performance on reducing the environmental impact of the Department's operations has also been adopted and is described below.

Objectives	Performance Measures	Targets
4a. Enhance Awareness of the Environmental Impacts of Our Operations	▪ Participation rate in the Department's internal environmental programs ▪ Programs Performance: value and per cent of E10 fuel purchases; amount of recycled material, number of hits on Greening the Office InfoSite	▪ To be set after benchmarks established ▪ To be set after baseline established
4b. Develop Tools and Implement Programs to Support Best Practices	▪ Evaluation of existing programs ▪ Number of programs with baseline data ▪ Inventories for substances identified as environmentally harmful ▪ Completion and use of purchasing guide	▪ Evaluate 100 per cent of programs ▪ Assign baseline to 100 per cent of programs ▪ Develop inventory of 100 per cent of regulated substances ▪ 75 per cent of employees trained by end of 2003 ▪ 100 per cent of acquisition card holders trained by end of 2003 ▪ 60 per cent of acquisition card holders have used guide in the procurement process by end of 2003

Sustainable Development Co-ordination Among Federal Departments

In most sustainable development areas, federal departments work together in a well-co-ordinated manner. For example, on the issue of climate change, the Government established a national climate change secretariat, headed by Natural Resources Canada and Environment Canada, to co-ordinate policy analysis development. The secretariat co-ordinated a system of multistakeholder issue tables, mandated to investigate possible policy or program approaches to reduce greenhouse gas emissions, and drawing upon expertise from across all federal departments. As shown in Objectives 1c (Implementing Key Federal Sustainable Development Priorities) and 2b (Developing Practical Uses of Economic Instruments), the Department of Finance has been and remains closely involved with other departments in the overall analyses of policy options to reduce greenhouse gas emissions.

Since the first round of sustainable development strategies, however, departments have recognized that there are also a number of other sustainable development issues that are horizontal in nature – issues for which many departments can or do carry out policy or program activities. As a result, for the 2001-2003 round of sustainable development strategies, federal departments are working to improve the overall co-ordination of their efforts on several of these other horizontal issues. In April 2000 deputy ministers and assistant deputy ministers met with stakeholders and academics at the Leaders' Forum on Sustainable Development[8] specifically to discuss views and experience that could assist departments in improving co-ordination in eight new sustainable development theme areas: Sustainable Development Knowledge and Information/Indicators and Reporting; Sustainability in Communities; Sustainable Development in Government Operations; Federal Sustainable Development Strategy for the North; Productivity Through Eco-Efficiency; International Aspects of Sustainable Development; Sustainable Development and Healthy Canadians; and Social and Cultural Aspects of Sustainable Development.

This section discusses some of the links between actions in Finance's SDS and the eight horizontal SD theme areas.

1) **Sustainable Development Knowledge and Information/Indicators and Reporting**

   This theme area encompasses departments' co-operative efforts to develop better indicators of sustainable development. One of the key initiatives under this theme area is the Budget 2000 initiative on environment and sustainable development indicators led by the National Round Table of the Environment and the Economy (NRTEE) and Environment Canada. As shown in Objective 2c (Integrated Decision Making: Increasing the Knowledge Base), Finance will remain closely involved in this initiative, in part through its membership on the steering committee established by NRTEE to oversee the development of national sustainable development indicators, which are relevant to Finance's policy role.

2) **Sustainability in Communities**

   This particular theme involves departments' efforts to better integrate the delivery of programs and services to communities that have an impact on sustainable development. Although Finance is not directly involved in the delivery of programs to communities, it has maintained a strong relationship with communities, in particular, with the Federation of Canadian Municipalities (FCM), an

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[8] The Leaders' Forum on Sustainable Development was organized on behalf of federal departments by the National Round Table on the Environment and the Economy. The event gathered together deputy ministers and assistant deputy ministers from federal departments with representatives from the business, non-governmental organization and academic communities to discuss sustainable development issues related to eight horizontal SD theme areas.

organization representing communities from all across Canada – from large cities to small rural communities. Finance was closely involved in designing the Government's renewed infrastructure program announced in Budget 2000, and worked closely with the FCM on designing $125-million "Green Municipal Funds" for green infrastructure and energy efficiency projects in communities.

For its part, the Department of Finance will continue to look to contribute to the Government's positive relationship with communities and to the vision of sustainable communities. In fact, this interest was exemplified in June 2000 at the FCM's annual conference, where the Minister of Finance emphasized the importance of co-operation between federal and municipal governments on expanding the use of renewable energy, reducing waste, preserving green spaces, restoring natural capital and improving the efficiency of resource and material use.

3) Sustainable Development in Government Operations

For the 2001-2003 round on sustainable development strategies, departments are taking on new commitments with respect to reducing the environmental impact of their operations, including improved waste management, procurement and energy efficiency. The section entitled "Key Issue #4: Greening Operations" details a number of actions the Department will take to contribute to this important goal.

4) Federal Sustainable Development Strategy for the North

This theme area is led by Indian and Northern Affairs Canada and involves departments' efforts to create a coherent approach to sustainable development policy and program delivery in the north that cuts across all departments' activities in the north. Again, due to the focus on program delivery, Finance's direct involvement is limited. However, the concept of sustainability in the north has links to Finance's SDS. As shown in Objective 1b (Building a Strong Society), Finance is responsible for managing the Equalization and Territorial Formula Financing programs, which address fiscal disparities across Canada and, thus, one component of overall sustainability. In the case of territorial governments, Territorial Formula Financing provides approximately $1.4 billion annually to enable the provision of public services in the north comparable to those provided by provincial governments.

5) Productivity Through Eco-Efficiency

The Government's efforts on eco-efficiency aim to encourage businesses to improve their environmental performance by adopting practices that have less environmental impacts while also improving overall efficiency and productivity. Although Finance is not closely involved in this theme area, efforts are being co-ordinated across a number of federal departments and include research, information and outreach to the business community. These efforts are being led by Industry Canada, Natural Resources Canada and Environment Canada.

6) International Aspects of Sustainable Development

This horizontal theme area, which involves addressing key international SD issues such as environmental, poverty, and regional conflict concerns, has many links to Finance's SDS. Sustainable Development in the Global Economy is identified as one of four key issues in Finance's strategy and involves a number of objectives and specific actions. This is a key theme area where Finance will continue to work closely to co-ordinate and co-operate with other federal departments.

7) Sustainable Development and Healthy Canadians

Departments are at an early stage of determining how to proceed with co-ordinated efforts in this theme area. Again, the focus is on co-ordinating program delivery by departments which address sustainable development by improving the health of Canadians. Finance's participation in this theme area is limited as it is not directly responsible for delivering such services to Canadians; however, the link between health and sustainable development is one of the fundamental concepts in Finance's SDS. Objective 1b (Building a Strong Society) describes the actions Finance will take in 2001-2003 with respect to the management of the CHST, which provides the federal government's principal support for Canada's health and social programs.

8) Social and Cultural Aspects of Sustainable Development

Departments remain at an early stage of understanding the nature and implications of federal activities targeted for social and cultural development on sustainable development. As a result, in 2000-2001, departments will continue to explore this theme area in order to determine how federal efforts can best be co-ordinated to contribute to long-term sustainable development.

ANNEX I — Assessment of the 1997 Sustainable Development Strategy

In the spring of 2000, Finance prepared an assessment of its 1997 sustainable development strategy to feed into the development of the 2001-2003 SDS. The assessment reported on the progress that had been made toward meeting objectives and actions in the 1997 SDS and assessed whether or not further action or progress in these areas would be relevant to the Department's 2001-2003 strategy. The assessment helped the Department determine how best to meet the new expectations of the Commissioner of the Environment and Sustainable Development and improve generally upon the 1997 strategy. The assessment was distributed to other departments and stakeholders as background material for the Department's first set of consultations on the development of the 2001-2003 SDS in June 2000.

Key Lessons Learned

The internal assessment of the 1997 SDS and the observations of the Commissioner have helped the Department tremendously in clarifying its approach to sustainable development. Most importantly, it has helped the Department more fully understand the links between its unique role within the framework of government, the range of SD opportunities it can pursue and the importance of analysis and consultation to the mainly policy-setting activities of the Department.

General Conclusions

Finance has limited engagement in the delivery of programs or services to Canadians that have a direct influence on sustainable development. Nonetheless, the Department conducts important ongoing policy analysis on sustainable development issues and plays important consultative and advisory roles with many federal departments and stakeholders on issues related to sustainable development, especially in the context of reviewing budget proposals related to taxes and spending. Ongoing analysis and consultations with interested groups is an important part of policy making in the Department and allows it to maintain an awareness and understanding of a wide range of views on the Government's sustainable development priorities. In fact, many of the action items set out in Finance's 1997 SDS involved commitments to conduct further consultation and analysis on a variety of issues.

The use of these approaches to sustainable development were especially relevant to actions under the key issue Integrating the Economy and the Environment, including the analysis of tax measures, economic instruments and environmental legislation. In turn, these activities have resulted in the development of a number of new initiatives, including new tax measures to promote the more efficient use of energy and the conservation of sensitive lands.

It has been noted by the Commissioner and others that commitments related to consultation are not easily quantified for the sake of measuring progress. From the perspective of Finance, however, these types of commitments represent important, forward-looking planning on the integration of these priority sustainable development issues into broader government policy.

Specific Observations

Through the internal assessment, it was found that many of the issues addressed in the first strategy remain relevant in today's context, despite the progress that has already been achieved. By furthering these issues in the 2001-2003 SDS, the Department is able to demonstrate its commitment to continual improvement on sustainable development issues that fall within its mandate. Several conclusions drawn from the internal assessment are provided below for each key issue.

KEY ISSUE #1: Building the Future

The 1997 SDS increased the Department's appreciation of the relationship between the overall management of the economy and sustainable development, and particularly drew attention to important progress on promoting intergenerational equity (e.g., through deficit and debt reduction and CPP reform). The Department's commitment to maintaining these efforts is already well enshrined in the Department's annual planning through its *Report on Plans and Priorities*, which sets out the key areas of work for the Department each year and has been communicated through the Department's fall economic updates and in recent federal budgets.

In addition, the Department has demonstrated its commitment to move further on analysis of environment and social objectives. For example, Finance plays an important analytical and research role in the Government's work to develop a plan to address climate change. The Department's participation in policy development on climate change was found to be well integrated in the Department's existing structure, which devotes resources from key branches for work with other departments and stakeholders on effective policy approaches.

A further important observation made through the assessment of the 1997 strategy relates to accomplishments that, in fact, were not specific goals in Finance's or any other department's 1997 SDS. These involve the variety of initiatives announced in the 1998, 1999 and 2000 federal budgets that relate to sustainable development. Because the budget is prepared each year in response to the Government's priorities, it was and remains impossible for departments to identify future budget initiatives as actions or targets in their sustainable development strategies. It was determined that the Department's 2001-2003 SDS should report on sustainable development initiatives announced in budgets since the release of the 1997 SDS in responding to the reporting "gap" created by this situation.

KEY ISSUE #2: Integrating the Economy and the Environment

It was noted that this is the area in which sustainable development issues are most integrated into the Department's activities, and is also one of the areas where other departments and stakeholders look most to Finance for actions. For instance, in the area of tax policy, the Department relies on its analytical and consultative capacities to determine how environmental objectives can be met while economic objectives are pursued. Meanwhile, other organizations have also become interested in looking more closely at the tax system. The NRTEE has initiated a three-year work plan with other interested groups, including Finance, to see if there are opportunities for using fiscal mechanisms to achieve environmental ends.

Analysis has also been conducted by the Department to help increase the knowledge base on environmental issues. Although Finance looks mainly to other departments such as Environment Canada for information related to the environment, we have undertaken efforts to expand our knowledge base where we have specialized knowledge. For example, through the 1997 SDS, the Department developed a catalogue of available information on the structure and level of existing federal and provincial taxes on energy consumption and taxes on transportation in Canada.

KEY ISSUE #3: Participating in the Global Economy

Another important SD activity of the Department has been to press sustainable development issues in IFIs. Measuring progress on such issues is difficult, especially as Canada cannot, by itself, initiate IFI policy changes. Nevertheless, it was observed that the Department's activities and commitments related to such activities can be communicated more concretely in the 2001-2003 SDS to ensure that Finance and others can track and measure progress more effectively.

KEY ISSUE #4: Greening Operations

On the matter of greening internal operations, Finance, as a relatively small, non-custodial department, is limited in implementing certain activities, especially those related to facilities management. Establishing benchmarks and targets for key priority areas under the Department's control was considered to be the driver for new efforts to green operations.

ANNEX II – Reviewing the Issue Scan

One of the principles of developing sustainable development strategies is that departments approach sustainable development through the lens of their own mandate. To assist departments, the 1995 *A Guide to Green Government* included an overview of the Government's priority SD objectives and proposed the use of an "issue scan" through which departments could focus their departmental lens on the priority sustainable development impacts of their activities, policies and programs.

In preparing the 1997 SDS, the priority sustainable development objectives in the guide were assessed from the perspective of Finance's mandate and its overall priorities. The result was development of four key issues and accompanying objectives that reflected the overall objectives outlined in the guide. The table below shows the links between the 1997 SDS and the guide.

A Guide to Green Government	Finance 1997 SDS
Promoting Equity • Ensuring a fair distribution of costs/benefits among generations • Ensuring a fair distribution of costs/benefits of sustainable development	**Building the Future** • Maintaining a healthy fiscal climate • Prospering in a knowledge-based economy • Building a strong society • Ensuring the tax system contributes to a strong economy and strong society
Protecting the Health of Canadians and Ecosystems • Eliminating anthropogenic, persistent and bioaccumulative toxic substances • Adopting a pollution prevention approach • Protecting representative areas • Warning and responding **Improving Quality of Life and Well-Being** • Improved productivity through environmental efficiency • Supporting innovation towards sustainable development • Broadening measures of progress to include non-monetary dimensions **Sustaining Our Natural Resources** • Ensuring renewable resources development is sustainable • Ensuring efficient use of non-renewable resources	**Integrating the Economy and the Environment** • Using the tax system • Reducing/eliminating subsidies • Developing practical uses of economic instruments • Reforming legislative and regulatory frameworks **Greening Operations** • Procurement and waste reduction • Communications
Meeting Our International Obligations • Protecting the ozone layer • Reducing greenhouse gas emissions • Conserving biodiversity	**Participating in the Global Economy** • Negotiating international environmental agreements • Negotiating future international trade and investment agreements • Developing environmental assessment guidelines for export credit agencies • Working with IFIs

The Department prepared a new issue scan in the spring of 2000, which reported the main activities and key sustainable development priorities for each branch in the Department. Some of the main priorities included:

- Maintaining a healthy fiscal climate to ensure that the Government can continue to promote social sustainability, environmental sustainability and quality of life.
- Using the Department's role in the annual federal budget to contribute to the Government's overall sustainable development goals.
- Ensuring new policies are cost-effective and consistent with fiscal responsibility.
- Ensuring sustainable social development by investing in children, addressing fiscal disparities among provinces and working with provinces in setting priorities to optimize social policy efficiency.
- Providing research and analysis on key environmental and sustainable development issues such as climate change.
- Evaluating how the tax system could be more efficient and effective in meeting the Government's priorities, including analyzing the relationship between the tax system (and other economic instruments) and environmental issues.
- Maintaining effective communication and consultation with stakeholders.
- Improving the Department's understanding of trade and environment issues in the face of increasing globalization and looking for opportunities in international fora to promote sustainable development of the world economy.
- Providing the Department itself with a safe, secure and environmentally responsible work environment.
- Reducing paper use by increasingly using the Internet to relay information to Canadians.

Through the 2000 SD issue scan, guidance from the Commissioner of the Environment and Sustainable Development, and the Department's internal assessment and experience, the Department developed the following key issues and objectives for the 2001-2003 SDS relative to those in the 1997 SDS.

Finance 1997 SDS	Finance 2001-2003 SDS
Building the Future ▪ Maintaining a healthy fiscal climate ▪ Prospering in a knowledge-based economy ▪ Building a strong society ▪ Ensuring the tax system contributes to a strong economy and strong society	**Building the Future** ▪ Maintaining a healthy fiscal climate ▪ Building a strong society ▪ Implementing the Government's SD priorities through the budget process
Integrating the Economy and the Environment ▪ Using the tax system ▪ Reducing/eliminating subsidies ▪ Developing practical uses of economic instruments ▪ Reforming legislative and regulatory frameworks	**Integrating the Economy and the Environment** ▪ Using the tax system ▪ Developing practical uses of economic instruments ▪ Integrated decision making: increasing the knowledge base
Participating in the Global Economy ▪ Negotiating international environmental agreements ▪ Negotiating future international trade and investment agreements ▪ Developing environmental assessment guidelines for export credit agencies ▪ Working with IFIs	**Sustainable Development in the Global Economy** ▪ Negotiating international environmental agreements ▪ Negotiating future international trade and investment agreements ▪ Developing environmental assessment guidelines for export credit agencies ▪ Working with IFIs ▪ Increasing knowledge and understanding of international environmental financial practices
Greening Operations ▪ Procurement and waste reduction ▪ Communications	**Greening Operations** ▪ Procurement and waste reduction ▪ Communications
	Management Systems ▪ Establishing a departmental SD champion ▪ Convening an SD working group with representation from all branches to share information on key sustainable development issues, track progress and report to a senior management committee

ANNEX III – Consultations on the 2001-2003 Sustainable Development Strategy

Consultations with stakeholders is a key part of the sustainable development strategy process. Finance's consultations began with the Leaders' Forum on Sustainable Development on April 4, 2000. This event, organized on behalf of federal departments by the NRTEE, gathered together deputy ministers and assistant deputy ministers from federal departments as well as representatives from the business, non-governmental organization and academic communities to discuss key sustainable development issues. To focus the discussion, federal departments prepared a discussion paper on eight SD theme areas in which departments plan to further harmonize their SD planning and actions. The eight theme areas are: Sustainable Development Knowledge and Information/Indicators and Reporting; Sustainability in Communities; Sustainable Development in Government Operations; Federal Sustainable Development Strategy for the North; Productivity Through Eco-Efficiency; International Aspects of Sustainable Development; Sustainable Development and Healthy Canadians; and Social and Cultural Aspects of Sustainable Development.

Finance received important feedback from the Leaders' Forum on Sustainable Development on several issues directly relevant to its SDS. For instance, although it was not one of the eight theme areas, participants were interested in discussing potential ways the Government could use economic instruments such as tax incentives to achieve environmental goals. This is an area where Finance plays an important role through, for example, continuing to assess proposals on the targeted use of the tax system for environmental purposes and contributing to the Government's research on the use of economic instruments for addressing climate change.

Participants also discussed international sustainable development issues. Discussions indicated the limited capacity for achieving environmental and social gains in the developing world through sustainable economic development without addressing poverty issues, which are the current priority for most of these countries. Finance has been and remains active in addressing international poverty and sustainable development issues through its mandated role to represent Canada in IFIs and international economic and trade forums.

A second government-wide consultation event was held in August 2000, when federal officials met in a one-day sessions with representatives from the Canadian Environment Industry Association. In-depth discussions were held on four sustainable development themes: Sustainable Development in Government Operations, Technology Development, Eco-Efficiency and International Issues. One of the key messages for Finance from this consultation event was that there is considerable interest on the part of a number of industries on the link between stronger support of the environment in international trade negotiations and the update of environmental technologies and growth of the environmental industry in Canada.

To supplement the government-wide consultation events and in order to focus attention more directly on Finance's SDS, the Department held its own set of consultations with stakeholders from industry and non-governmental organizations while preparing its second sustainable development strategy.

At the first set of consultations in June 2000, the Department sought feedback from other departments and stakeholders on the preliminary thinking behind the 2001-2003 strategy. Participants were asked to review and comment on the Department's first strategy, the Department's assessment of its 1997 SDS, and its sustainable development issue scan.

A number of important comments were obtained at this meeting. For example, the Department was advised of the United Nations Environment Programme Financial Services Initiatives, which link sustainable development to the activities of financial institutions. As Finance plays a key role in financial sector policy in Canada, the Department determined that it would participate in upcoming Financial Services Initiatives activities, beginning with the annual international meeting held in November 2000.

Finance held a second round of consultations in December 2000 and January 2001. Key feedback from this round of consultations was helpful in strengthening some of the important overarching messages in Finance's SDS. These include: the role of Finance in helping achieve long-term sustainable development benefits through policy development; the importance of working with other departments and stakeholders to achieve results in our priority areas; and the importance of reporting on progress on the objectives and actions identified in Finance's strategy.